

Audit and Governance Committee Update for the Royal Borough of Kingston upon Thames

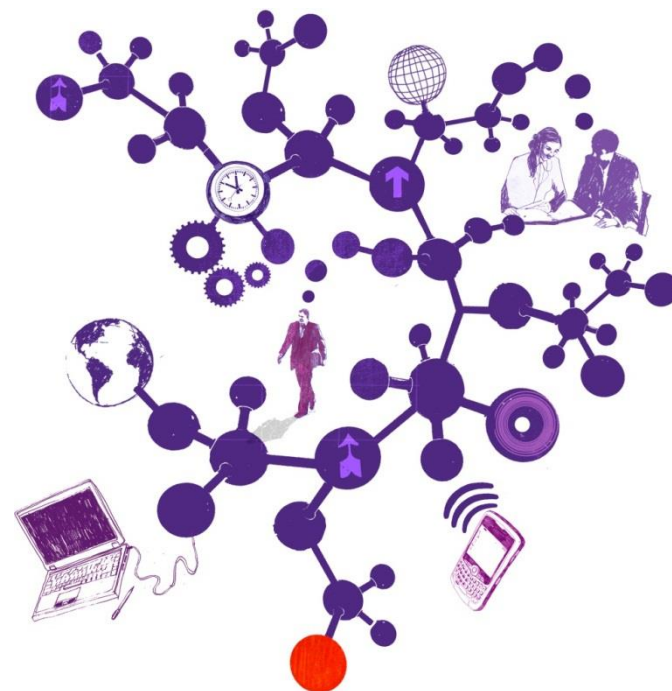
Year ended 31 March 2015

June 2015

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Introduction

This paper provides you with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which you may wish to consider.

You can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at 2 June 2015

Work	Planned date	Complete?	Comments
2014-15 Accounts Audit Plan We are required to issue a detailed accounts audit plan to you setting out our proposed approach in order to give an opinion on your 2014-15 financial statements.	April 2015	Yes	We issued our audit plan to the previous Audit and Governance Committee in April 2015.
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • updating our review of your control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January 2015 and March 2015	Yes	Our interim accounts audit has been completed successfully. Details were included in our audit plan issued to the April 2015 Audit and Governance Committee.
2014-15 final accounts audit Including: <ul style="list-style-type: none"> • audit of your 2014-15 financial statements • proposed opinion on your accounts • proposed Value for Money conclusion. 	July – August 2015	No	We anticipate receiving your draft financial statements in late June. Our final accounts audit will commence in early July.

Progress at 2 June 2015

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2014/15 VfM conclusion comprises: <ul style="list-style-type: none"> • Review of your current financial performance • Review of your 2015/16 budget setting and financial planning • Review of your saving plans through Our Kingston • Impact of the hold on the 'Thames Agreement' • Review of arrangements over Achieving for Children • Review of arrangements where you require different ways of working • Update of progress implementing the improvement plan following the 2013 OFSTED findings, 	March – September 2015	In progress	We are currently carrying out our value for money review. The current key messages are; <ul style="list-style-type: none"> • We will consider your 2014/15 financial performance upon receipt of the draft financial statements in late June • You have set a balanced budget for 2015/16 onwards, however, there remain significant savings to be found in the following years • You are developing your plans for the Our Kingston programme and we will review the progress made later in the year • OFSTED are currently carrying out an inspection of your children's services. We will consider the outcomes arising once their report is published.

All Aboard? - Local Government Governance Review 2015

Grant Thornton

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long-term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

Governance of the organisation – the main area of concern highlighted in this year's governance survey is the level of dissatisfaction with the scrutiny process.

Governance in working with others – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

Governance of stakeholder relations – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through many other agencies. This implies a greater role for scrutiny and a need to make sure local public sector bodies' arrangements are as transparent as possible for stakeholders.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Easing the burden – the impact of welfare reform on local government

Grant Thornton

Our second report into welfare reform looks at how local welfare reform has developed over the last two years from the local authority and social housing point of view. It includes a look at some of the innovative 'good practice' that local authorities are using to address it. The report is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Easing-the-Burden/>

Our report is concerned with:

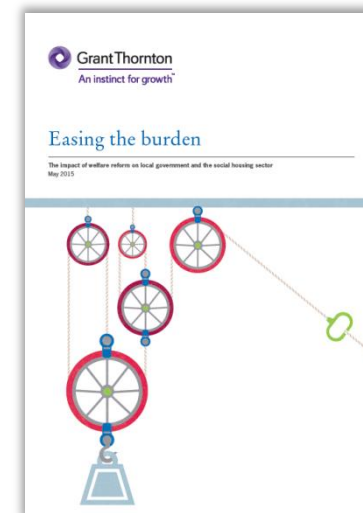
- the impact of reform on the strategy, finances and administration of local authorities and their partners, including housing associations
- the impact on welfare recipients to the extent that this has direct consequences for local authorities and housing associations
- what the future might hold.

Our findings are based on a survey of 75 local authorities, including the Royal Borough of Kingston, and housing organisations, as well as more detailed discussion with some of the key officers at these organisations.

Key findings include:

- reduction to discretionary housing payments would have significant financial implications for local authorities
- the proposed withdrawing of ring-fenced funding for local hardship schemes in 2016 will also contribute to the financial pressures on local authorities
- there is a danger that reduced funding for welfare will undermine the capacity of local authorities to pursue some of the more efficient methods of delivering welfare such as early intervention strategies
- however, in the face of reduced funding, welfare reform has been a key driver for innovation and improvement
- policies to reduce benefit dependency, coupled with a growing economy and better joint working between different agencies have already mitigated some of the impact. This could support the argument that a further devolution of powers to local government for welfare administration could be the key to a sustainable future.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Stronger futures: development of the LGPS

Grant Thornton

Our second review on governance in LGPS funds in England and Wales is based on comprehensive research with pension fund senior officers, supported by insights from pension fund auditors and is available at <http://www.grant-thornton.co.uk/Publications/2015/Stronger-futures-development-of-the-LGPS/>

With the local government pensions scheme (LGPS) continuing to face significant change and challenge, there is a clear commitment to ensuring its survival and the provision of affordable pension benefits for the future. Following the implementation of a career average pension scheme in 2014, administering authorities are preparing for significant changes in governance arrangements effective from April 2015.

Some of the key messages from the report are:

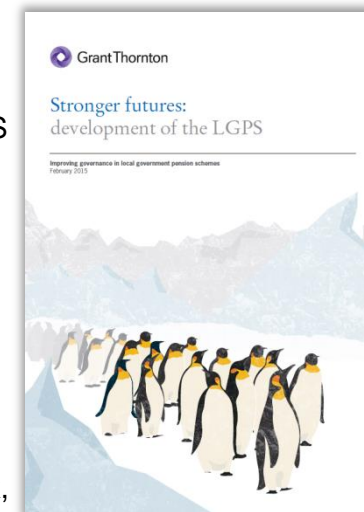
- there are increasing strong examples of innovation and increased collaborative working across the LGPS to achieve reduced costs and improved use of specialist skills and knowledge;

- implementation of the career average scheme from April 2014 went well and demonstrated good project management and effective communication with members and employers; and

- there have been several other positive trends across the LGPS since our 2013 review particularly around the widening scope of reporting to Pension Committees including performance reporting, risk management and internal audit reviews.

However, we saw a wide variation in practice, including a concentration of risk reporting on investment risk, over half of funds have not implemented the CIPFA knowledge and skills framework as part of their member training, 45 per cent of Pension Committees do not receive internal audit reports and 15 per cent do not have specific internal audit coverage, and nearly half of funds have no information around the value of their liabilities in between the triennial valuations.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Independent Commission into Local Government Finance

Local government issues

The Independent Commission on Local Government Finance was established in 2014 to examine the system of funding local government in England and bring forward recommendations on how it can be reformed to improve funding for local services and promote sustainable economic growth. It published its final report, [Financing English Devolution](#), on 18 February 2015.

The report notes that the core of the Commission's proposition is the devolution of powers, funding and taxes to sub-national entities over a 10 year period. They estimate that this could lead to over £200 billion in public expenditure being controlled at a sub-national level. The expectation is that councils and their partners would work collaboratively to manage differences in capacity and resources. They see local areas becoming self sufficient.

The Commission advocates a 'variable speed' approach to reform with 'Pioneers' able to and wishing to reform at a faster pace. Reforms advocated for all authorities include:

- An independent review of the functions and sustainability of local government in advance of the next spending review
- Freedom to set council tax and council tax discounts and full retention of business rates and business rates growth
- Multi-year financial settlements
- The ability to raise additional revenue through the relaxation of the rules on fees and charges

'Pioneer' authorities would also implement:

- Single placed-based budgets for all public services
- Management of funding equalisation across a sub-national area
- Further council tax reforms including the ability to vary council tax bands and undertake revaluations
- Newly assigned and new taxes such as stamp duty, airport taxes and tourism taxes
- The establishment of Local Public Accounts Committees to oversee value for money across the placed-base budget.

Challenge question

Have members been briefed on the key findings of the Independent Commission's final report?

Earlier closure and audit of accounts

Accounting and audit issues

Legislation was recently passed to bring forward the deadlines for the preparation and audit of Local Government financial statements from 2017/18 onwards. The timeframes for the preparation of the financial statements and their subsequent audit will be reduced by one month and two months respectively as follows:

- Deadline for preparation of financial statements – 31 May (currently 30 June)
- Deadline for audit completion – 31 July (currently 30 September)

Although July 2018 is over 3 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management.

Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Auditors are already working on bringing forward more testing to before the financial statements are prepared and will be discussing further changes with local authorities including greater use of estimates in the accounts which will enable the audits to be brought forward further.

Some authorities currently produce their financial statements ahead of the current deadline, or have plans to do so in 2014/15, and some audits are completed before 31 July.

We will be assessing how this has been achieved and will share our findings in a national report, expected in early 2016.



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